

## Message Text

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PAGE 01 TOKYO 08884 01 OF 02 151042Z  
ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 EAE-00 SP-02 USIA-15 AID-05  
EB-07 NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01  
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04  
OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01  
/110 W

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P R 150940Z JUN 77  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 8652  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY BRUSSELS

UNCLAS SECTION 1 OF 2 TOKYO 8884

BRUSSELS FOR US MISSION EC

PARIS ALSO FOR US MISSION OECD

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JUNE 9-15

1. SUMMARY: THE ECONOMIC PLANNING AGENCY (EPA) AND THE BANK OF JAPAN (BOJ) BOTH SAY IN THEIR RESPECTIVE MONTHLY REPORTS RELEASED THIS PAST WEEK THAT JAPAN'S RECOVERY CONTINUES GRADUALLY TO GATHER STRENGTH BUT DOES NOT DISPLAY MUCH VITALITY. REVISED DATA ON APRIL MINING AND MANUFACTURING PRODUCTION AND SHIPMENTS AS WELL AS DATA ON NEW ORDERS FOR MACHINERY AND CONSTRUCTION CONFIRM THAT MIXTURE OF OPTIMISM AND CAUTION. AS BANKRUPTCIES RISE, DISCUSSION OF REPORTED GOVT PROPOSALS FOR FINANCIAL AID TO  
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PAGE 02 TOKYO 08884 01 OF 02 151042Z

AILING FIRMS HEATS UP. MAY TRADE DATA SHOW INCREASED IMPORTS AND SHARP DROP IN EXPORTS. MAY WHOLESALE PRICES SHOW LITTLE CHANGE. AVERAGE PROPENSITY TO SAVE CONTINUED TO RISE IN FIRST QUARTER. END SUMMARY-

2. MONTHLY ECONOMIC REPORT OF THE ECONOMIC PLANNING AGENCY (EPA), PRESENTED TO THE CABINET LAST WEEK, STRUCK

A NOTE OF CAUTIOUS OPTIMISM ABOUT JAPAN'S RECOVERY. WHILE NOTING LARGE FIRST QUARTER RISE IN GNP, EPA ATTRIBUTED BULK OF THIS INCREASE TO A SHARP RISE IN NEXT EXPORTS AND REPORTED THAT DOMESTIC DEMAND, ESPECIALLY PLANT AND EQUIPMENT INVESTMENT, LACKED VITALITY. EPA ALSO POINTED TO DIFFERENCES IN RECOVERY PACE IN VARIOUS INDUSTRY SECTORS AND IMPLIED THAT GOVT PLAN FOR FINANCIAL ASSISTANCE TO CERTAIN LAGGING INDUSTRIES MIGHT BE NECESSARY. THE BOJ'S MONTHLY REPORT STRESSED THE CONTINUING WEAKNESS OF BUSINESS CONFIDENCE DESPITE RECENT DISCOUNT RATE CUTS AND NOTED THAT WHILE AN INCREASING NUMBER OF FIRMS SAY ECONOMIC CONDITIONS ARE GOOD, MODEST IMPROVEMENT IN BUSINESS MOOD HAS NOT PRODUCED A RISE IN INVESTMENT PLANS.

3. REVISED APRIL INDUSTRIAL PRODUCTION ESTIMATES SHOW SEASONALLY ADJUSTED MINING AND MANUFACTURING OUTPUT INCREASED 0.9 PERCENT THAT MONTH, SLIGHTLY SMALLER RISE THAN 1.0 PERCENT INITIALLY ESTIMATED. THE ESTIMATE FOR PRODUCERS' SHIPMENTS OF FINISHED GOODS IN MINING AND MANUFACTURING INDUSTRIES WAS REVISED UPWARD TO SHOW 1.0 PERCENT DECLINE FROM PREVIOUS MONTH VERSUS PRELIMINARY ESTIMATE OF 1.4 PERCENT DROP. EXCLUDING SHIPS, HOWEVER, REVISED ESTIMATES FOR BOTH PRODUCTION AND SHIPMENTS IN APRIL WERE UNCHANGED FROM PRELIMINARY FIGURES, WITH PRODUCTION, EXCLUDING SHIPS, UP 1.1 PERCENT S.A. AND SHIPMENTS, EXCLUDING SHIP DELIVERIES, DOWN 2.0 PERCENT. INDEX, S.A., 1970 EQUALS 100; PERCENT CHANGE FROM

PRIOR MONTH IN PAREN

MIN. MFG. PRODUCERS' INVENTORY TO SHIPMENTS  
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PAGE 03 TOKYO 08884 01 OF 02 151042Z

	PRODUCTION	SHIPMENTS	RATIO
FEB	127.5 (-1.9)	132.3(-1.7)	128.0 (1.9)
MAR	130.7 (2.5)	136.2 (2.9)	123.1 (-3.8)
APR	131.9 (0.9)	134.8 (-1.0)	124.6 (1.2)

4. NEW PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS, ROSE SHARPLY ON SEASONALLY ADJUSTED BASIS 1 APRIL. HOWEVER, ENTIRE INCREASE CAN BE ATTRIBUTED TO ORDERS PLACED BY ELECTRIC POWER INDUSTRY, WHICH HAS ACCOUNTED FOR LARGE PORTION OF RECENT MONTHLY FLUCTUATIONS (TOKYO 6978). EXCLUDING ORDERS PLACED BY ELECTRIC POWER INDUSTRY, PRIVATE MACHINERY ORDERS EXCLUDING SHIPS REGISTERED SLIGHT DECLINE IN APRIL AS FALL IN ORDERS PLACED BY MANUFACTURING INDUSTRIES OUTWEIGHED INCREASE IN ORDERS PLACED BY NON-MANUFACTURING SECTOR. ANOTHER DEVELOPMENT OF NOTE IS SUCCESSIVE LARGE DECLINES IN ORDERS PLACED BY GOVT AND PUBLIC AGENCIES IN MARCH AND APRIL. HOWEVER, EPA OFFICIAL HAS INFORMED EMBASSY APRIL DECLINE IN ORDERS REFLECTS SLIGHT DELAY IN PASSAGE OF BUDGET AND SAID VALUE OF GOVERNMENT CONTRACTS LET ROSE

16.3 PERCENT (S.A.) IN MAY AND WOULD ALSO RISE IN JUNE.  
 NEW MACHINERY ORDERS, SEASONALLY ADJUSTED  
 (BIL YEN; PERCENT CHANGE FROM PRIOR MONTHS IN PAREN)

	PRIVATE ORDERS (EXCL. SHIPS)	GOVT AND PUBLIC ORDERS
JAN	306.2 (5.7)	80.8 (-1.6)
FEB	254.1 (-17.0)	94.4 (16.9)
MAR	252.6 (-0.6)	78.5 (-16.9)
APR	305.3 (20.9)	69.3 (-11.7)

5. NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED, DECLINED  
 IN APRIL WITH DROP IN ORDERS PLACED BY GOVERNMENT AND  
 PUBLIC AGENCIES ESPECIALLY MARKED. ORDERS PLACED BY  
 PRIVATE SECTOR (JEI 325), DESPITE APRIL DECLINE, REMAINED  
 9 PERCENT ABOVE CY 1976 MONTHLY AVERAGE. HOWEVER, ORDERS  
 PLACED BY GOVERNMENT AND PUBLIC SECTOR (JEI 324), WHICH  
 DECLINED FOR THIRD STRAIGHT MONTH, WERE 9.5 PERCENT BELOW  
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PAGE 04 TOKYO 08884 01 OF 02 151042Z

CY 1976 AVERAGE AND EVEN BELOW MONTHLY AVERAGE OF FOURTH  
 QUARTER 1976, WHEN DELAY IN DIET PASSAGE OF GOVERNMENT BOND  
 LEGISLATION DISRUPTED PLACEMENT OF CONSTRUCTION ORDERS.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED  
 (BIL YEN, PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	GOVT:PUBLIC	PRIVATE
JAN	279.8 (22.2)	270.3 (-1.9)
FEB	216.9 (-22.5)	258.9 (-4.2)
MAR	208.8 (-3.7)REV	275.8 (6.5)REV
APR	191.1 (-8.5)PRE	272.3 (-1.2)PRE

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PAGE 01 TOKYO 08884 02 OF 02 151056Z  
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PR 150940Z JUN 77

FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 8653  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY BRUSSELS

UNCLAS SECTION 2 OF 2 TOKYO 8884

6. CORPORATE BANKRUPTICIES TOTALED 1,652 IN MAY, AN ALL-TIME HIGH FOR THAT MONTH, AND LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCY REACHED 350 BIL YEN, AN ALL-TIME RECORD. THE CONTINUING RISE IN BANKRUPTIES, DESPITE OVERALL RECOVERY, HAS PROMPTED INCREASING DISCUSSION OF THE PLIGHT OF CERTAIN INDUSTRIES FOR WHICH THE ECONOMIC OUTLOOK IS STILL QUITE GLOOMY AND BROUGHT FORTH A PROPOSAL BY MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) FOR FINANCIAL ASSISTANCE TO THESE INDUSTRIES. THE UNDERLYING PROBLEM, AS THE DIRECTOR OF THE RESEARCH INSTITUTE FOR NATIONAL ECONOMY POINTED OUT IN A RECENT PANEL DISCUSSION, STEMS FROM THE IMBALANCE OF JAPAN'S RECOVERY WHICH HAS BROUGHT OUTPUT OF CONSUMER GOODS TO A LEVEL 9 PERCENT ABOVE THE PRE-RECESSION PEAK WHILE PRODUCTION OF INDUSTRIAL GOODS IS STILL 5.5 PERCENT BELOW THE PEAK. CAPACITY UTILIZATION RATES IN MAJOR MANUFACTURING SECTORS FOR MAY 1977 AND 1976, SHOWN IN THE TABLE BELOW, HIGHLIGHT THOSE UNCLASSIFIED

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PAGE 02 TOKYO 08884 02 OF 02 151056Z

SECTORS WHICH ARE IN PARTICULARLY DIFFICULT STRAITS BECAUSE DEMAND FOR THEIR GOODS REMAINS LOW. WHILE CAPACITY UTILIZATION RATES ARE NOW ABOVE 95 PERCENT FOR TRANSPORTATION EQUIPMENT, ELECTRICAL MACHINERY, CLAY AND CERAMIC PRODUCTS AND PRECISION INSTRUMENTS, UTILIZATION RATES FOR CHEMICALS, IRON AND STEEL, INDUSTRIAL MACHINERY AND METAL MANUFACTURING FIRMS REMAIN WELL BELOW 80 PERCENT. IN THE PAST YEAR THE INDUSTRIAL MACHINERY PRODUCERS HAVE HAD A PARTICULARLY HARD 23 POINT DROP IN CAPACITY UTILIZATION TO ONLY 73 PERCENT CAPACITY NOW. MITI REPORTEDLY HAS PROPOSED THE FORMATION OF A NUMBER OF ANTI-RECESSION CARTELS TO AID SUCH HARD-HIT INDUSTRIES AS TEXTILES, SCRAP IRON SMELTERS, ALUMINUM, MACHINE TOOLS AND SHIPPING, HOWEVER, SHUZO MURAMOTO, PRESIDENT OF THE FEDERATION OF BANKERS ASSOCIATIONS AND ALSO PRESIDENT OF DAI-ICHI KANGYO BANK, THE NATION'S LARGEST, HAS COME OUT AGAINST WHAT HE DESCRIBES AS MITI'S AMBITIOUS PLANS. GOVERNOR TEIICHIRO MORINAGA OF THE BANK OF JAPAN IS ALSO URGING CAUTION. OPPOSITION FROM SUCH QUARTERS IS ESPECIALLY SIGNIFICANT SINCE THE MITI PROPOSAL WOULD DEPEND

HAVILY UPON COMMERCIAL BANK FINANCIAL ASSISTANCE TO  
AFFECTED INDUSTRIES, ESPECIALLY IN EARLY STAGES OF THE PLAN.

#### CAPACITY UTILIZATION RATES IN JAPANESE MANUFACTURING SECTOR

	APRIL 1976	APRIL 1977	CHANGE IN UTILIZATION
TRANSPORTATION EQUIPMENT	115.0	117.3	PLUS 2.3
ELECTRICAL MACHINERY	107.5	107.4	- 0.1
CLAY AND CERAMICS PRODUCTS	80.7	98.7	PLUS 18.0
PRECISION INSTRUMENTS	86.2	96.1	PLUS 9.9
RUBBER RPRODUCTS	88.5	92.7	PLUS 4.2
TEXTILES	90.5	88.4	- 2.1
NON-FERROUS METALS	84.9	81.7	- 3.2
PETROLEUM, COAL PRODUCTS	78.4	80.2	PLUS 1.8
PULP AND PAPER PRODUCTS	80.4	79.1	- 1.3
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PAGE 03 TOKYO 08884 02 OF 02 151056Z

CHEMICALS	77.9	76.8	- 1.1
IRON AND STEEL	78.8	76.8	- 2.0
INDUSTRIAL MACHINERY	95.7	73.0	-22.7
METAL MANUFACTURES	69.9	71.1	PLUS 1.2

7. JAPAN'S IMPORTS INCREASED AT A FAIR CLIP IN MAY BUT EXPORTS DROPPED SHARPLY, ACCORDING TO PRELIMINARY SEASONALLY ADJUSTED CUSTOMS BASIS FOREIGN TRADE DATA RELEASED BY MINISTRY OF FINANCE (MOF) JUNE 14. ADJUTED IMPORTS RECORDED 1.7 PERCENT MONTHLY ADVANCE IN MAY BUT DID NOT RECOVER FULLY FROM DECLINE REGISTERED IN APRIL; MOREOVER, MAY INCREASE CAN BE MORE THAN EXPAINED BY LARGE INCREASE IN CRUDE OIL IMPORTS. MAY ADJUTED EXPORTS, ON THE OTHER HAND, FELL 8.1 PERCENT, MORE THAN OFFSETTING GAINS RECORDED IN PRECEDING TWO MONTHS. LARGEST SINGLE CONTRIBUTOR TO EXPORT DOWNTURN WAS SHARP (ABOUT \$250 MIL) DFOP IN SHIP DELIVERIES AFTER SURGE IN APRIL. TRADE FIGURES ON BALANCE OF PAYMENTS BASIS WILL NOT BE AVAILABLE UNTIL JUNE 16 BUT CUSTOMS DATA IMPLY ABOUT \$650 MIL DECLINE FROM APRIL'S \$1.7 BIL S.A. TRADE SURPLUS.

8. WHOLESALE PRICES REMAINED CALM IN MAY. WHOLESALE PRICES OF MANUFACTURED GOODS ALSO INCREASED SLIGHTLY. INDEX, N.S.A., 1970 EQUALS 100; PERCENT CHANGE FROM PRIOR MONTH IN PAREN

	ALL COMMODITIES (JEI 471)	MANUFACTURES (JEI 487)
FEB	169.4 (0.4)	159.7 (0.1)
MAR	169.5 (0.1)	159.8 (0.1)
APR	169.4 (MIN 0.1)	159.9 (0.1)
MAY	169.6 (0.1)	160.1 (0.1L)

9. AVERAGE PROPENSITY TO SAVE, SEASONALLY ADJUSTED,  
ROSE SHARPLY TO TOP 26 PERCENT OF DISPOSABLE INCOME IN  
MARCH, ACCORDING TO MONTHLY SURVEY RELEASED BY  
PRIME MINISTER'S OFFICE. AS A RESULT, FIRST QUARTER  
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PAGE 04 TOKYO 08884 02 OF 02 151056Z

AVERAGE PROPENSITY TO SAVE (JEI 363) ROSE TO 23.8 PERCENT,  
COMPARED WITH THE LAST YEAR'S LOW OF 21.7 PERCENT RECORDED  
IN THE SECOND QUARTER 1976 AND 23.0 PERCENT IN SAME  
QUARTER A YEAR EARLIER. RISE IN DISPOSABLE INCOME OF ALL  
HOUSEHOLDS CONINUED TO ACCELERATE IN THE FIRST QUARTER  
OF THIS YEAR. LIVING EXPENDITURES OF HOUSEHOLDS ALSO  
INCREASED IN FIRST QUARTER, BUT NOT AS RAPIDLY AS DISPOSABLE  
INCOME.

AVERAGE PROPENSITY TO SAVE (PERCENT OF DISPOSABLE INCOME)-  
SEASONALLY ADJUSTED

RECENT MONTHS (1977) RECENT QUARTERS (MONTHLY AVERAGE)

JAN	21.7	1976 JAN-MAR	23.0
FEB	23.7	APR-JUNE	21.7
MAR	26.1	JUL-SEP	21.9
		OCT-DEC	23.2
		1977 JAN-MAR	23.8

10. CALL MONEY BROKERS ANNOUNCED THAT CALL MONEY RATES  
WERE BEING RAISED BY 0.125 PERCENTAGE POINTS, EFFECTIVE  
JUNE 13, REFLECTING SEASONAL UPSWING IN CREDIT  
DEMAND. THIS WAS THE SECOND RATE INCREASE IN JUNE.  
SIMILAR 0.125 PERCENTAGE POINT RATE INCREASE WAS  
INSTITUTED JUNE 2. UNCONDITIONAL CALL MONEY RATE HAS BEEN  
RAISED TO 5.5 PERCENT PER ANNUM, WHEREAS BILL DISCOUNT  
RATE HAS REMAINED UNCHANGED AT 6.00 PERCENT PER ANNUM  
SINCE JUNE 2.

11. BANK OF JAPAN HAS NOW RELEASED FACTORS CONTRIBUTING  
TO CHANGE IN MONEY SUPPLY (M2, N.S.A.) DURING APRIL.  
AGGREGATE MONEY SUPPLY DATA FOR THAT MONTH WERE TRANS-  
MITTED IN TOKYO 8480, PARA 4. CREDITS TO NATIONAL GOVT  
REGISTERED HEALTHY INCREASE IN APRIL, BUT MOST OF THAT  
GROWTH WAS OFFSET BY DECLINE IN CREDITS TO PRIVATE SECTOR.  
NET FOREIGN ASSETS REMAINED POSITIVE CONTRIBUTOR TO  
GROWTH IN MONEY SUPPLY IN APRIL. CHANGE IN M2 IN APRIL  
(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E., TIMES 12) S.A.  
UNCLASSIFIED

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PAGE 05 TOKYO 08884 02 OF 02 151056Z

WAS 1.2; IN M2, N.S.A. 5.9 FACTORS CONTRIBUTING TO APRIL  
CHANGE IN M2, N.S.A. WERE CREDITS TO: PRIVATE SECTOR

MIN 4.0; NATL GOVT 11.3; LOCAL GOVT MIN 1.4; FOREIGN ASSETS  
NET 0.9; OTHERS MIN 0.9; TOTAL 5.9.  
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## Message Attributes

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**Copy:** SINGLE  
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**Decaption Note:**  
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**To:** STATE TRSY  
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